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# United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

September 4, 2001

The Honorable Edward C. "Pete" Aldridge, Jr.  
Under Secretary of Defense  
for Acquisition, Technology, and Logistics  
Department of Defense  
3010 Defense Pentagon  
Washington, DC 20301-3010

Dear Mr. Under Secretary:

At my request, the General Accounting Office (GAO) prepared a study of the process used for setting agency goals for small business contracting and for measuring actual achievements toward those goals. I know this matter is a central concern of yours because the Department of Defense (DoD) is the largest Government purchaser of goods and services, and because I understand you recently circulated a memorandum concerning these issues. I am enclosing a copy of the GAO report for your review.

Because DoD is the largest Federal purchaser, the actions taken by DoD largely decide whether the Government as a whole will meet small business goals, particularly those goals intended to help nontraditional contractors such as women-owned small businesses. Another GAO report done at my request last February expressly states that the Government's ability to meet the 5% goal for women-owned concerns "depends to a large extent on DoD's ability to meet" its own goal for such concerns.

Your help is needed to improve the Government's measurement of small business participation. Your May 16, 2001 "Memorandum for Secretaries of the Military Departments [and] Directors [of] Defense Agencies" on Small Business Program Reinvention can be a key factor in improving these measures. (A copy of this Memorandum is attached for your convenient reference.)

For example, one area cited by GAO is the failure to get small business participation goals in-place while they are timely. Many agencies fail to get final goals before the start of the fiscal year to which they apply. This unduly complicates the ability of these agencies to implement those goals once adopted. I have separately written the Administrator of the Small Business Administration (SBA) on actions that need to be taken in this area. I would like your personal commitment to have DoD's goals in-place before the start of Fiscal 2002 and before each fiscal year in the future.

The Honorable Edward C. "Pete" Aldridge, Jr.  
Page Two

Your Memorandum calls for DoD agencies to adopt five-year small business performance targets. This will help significantly to ensure that goals are readily determined for each year covered by the Memorandum (Fiscal 2002 through 2006). I also believe that having each activity create a plan with three initiatives for on-going improvement will help set challenging goals while providing the necessary focus on key areas to make improvements. Reviewing progress toward these goals during the year, rather than merely at the end, will help DoD make timely corrections where needed. Finally, a single overall rating that measures achievement in all small business areas will help users of these statistics to get a quick overall assessment of DoD's small business performance. I am concerned that the proliferation of small business goals has made such an overall assessment difficult; as the saying goes, we increasingly have difficulty finding a forest because of all the individual trees.

Your initiative in this area deserves greater attention as an attempt to improve measurement of small business participation. I commend you on this small business program improvement initiative, which aggressively tackles challenges that were seemingly unattainable during the previous Administration. I invite you to join me in a press conference early in October, to call greater attention to these efforts. It will be vital for DoD to have its Fiscal 2002 goals in-place by that time as well, so that we can announce those goals as part of the press conference.

My staff will be contacting your office to try to arrange such a press conference. I hope also to have the participation of the Administrator of the Small Business Administration. In the meantime, if you have questions about this matter, please call Cordell Smith of my staff at the Senate Committee on Small Business and Entrepreneurship at (202)224

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written in a cursive style.

Christopher S. Bond  
Ranking Member

Enclosures



ACQUISITION AND  
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE  
3010 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-3010



MAY 16 2001

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
DIRECTORS, DEFENSE AGENCIES

SUBJECT: Small Business Program Reinvention

The Department of Defense (DoD) is committed to sustained Small Business Program performance improvement. To accomplish this, the DoD must ensure a greater level of Program understanding, accountability and senior management support. To provide proper focus, we are adopting a recent rapid improvement team recommendation to use a single "Rating" that establishes key small business targets and simplifies Small Business Program performance evaluation. DoD will annually measure itself and each Military department and Defense agency on overall Program performance against established metrics and hold senior leadership accountable for Program accomplishments.

**Small Business Improvement Plans.** DoD, the Military departments, Defense agencies and subordinate activities shall annually develop and execute small business improvement plans. Each activity's plan will identify at least three initiatives that will be undertaken during the year to improve small business performance within the activity. The plan will include qualitative factors that are measurable, address how the plan enhances the Defense industrial base, and identify the office of primary responsibility within each activity. The DoD, Military departments and Defense agencies plans shall be submitted to the Under Secretary of Defense (Acquisition, Logistics and Technology) (USD(AT&L)) annually, prior to the beginning of the fiscal year (FY).

**Small Business Performance Targets.** The DoD, Military departments, Defense agencies and subordinate activities shall establish five-year small business performance targets (FY 2002 through FY 2006). The annual targets shall be based on FY 2000 Small Business Program performance and shall be reviewed annually prior to the beginning of the FY for adjustment purposes. In the case of the Defense Contract Management Agency, due to its primary focus on administration of subcontracting and subcontracting plans, targets will be based solely on subcontracting.

**Ratings.** The Director, OSD, Office of Small and Disadvantaged Business Utilization (SADBU) shall consult with the Military departments and Defense agencies SADBU's and develop targets that will be provided to the activity before the start of each fiscal year. The targets and ratings will be built on past Small Business Program performance and include qualitative factors from the small business improvement plans

and the small business performance targets as the metrics for measuring Small Business Program performance. The rapid improvement team developed the attached sample-rating plan that illustrates the methodology that will be used by the SADBU in developing the plan. Additional guidance is also attached that expands the rating plan to include the qualitative factors of the Small Business Improvement Plan. The Secretaries of the Military departments and the Directors of Defense agencies shall assess and rate subordinate activities Small Business Program performance at the end of each FY. The USD(AT&L) will assess and rate the Military departments and Defense agencies Program performance at the end of each FY.

**Awards Program.** The Director, OSD SADBU shall establish an annual small business awards program in accordance with appropriate DoD regulations. The awards program, at a minimum, will recognize outstanding efforts by DoD activities, individuals and contractors to maximize prime and subcontracting opportunities for small businesses.

**Training.** All DoD contracting and program management personnel shall receive small business program training annually. The Director, OSD SADBU, in coordination with the Military departments and Defense agencies, shall develop a small business training course that provides best practices for identifying and utilizing small businesses and provides legislative and regulatory updates regarding the Program.

**Reporting.** The Secretaries of the Military departments and Directors of Defense agencies will report to me on a semi-annual basis. In the event that a Military department or Defense agency should fail to achieve a satisfactory rating, the head of the organization will meet with the USD (AT&L) to discuss revisions to its Improvement Plan which will result in improved performance. Additionally, the USD(AT&L) will report to the Deputy Secretary of Defense twice a year on DoD's Small Business Program accomplishments. Furthermore, the Secretaries of the Military departments, Directors of Defense agencies and commanders of subordinate activities shall be briefed by their small business specialist not less than semi-annually on their Program accomplishments and plans.

I challenge you and your contracting, program management and SADBU personnel to accept responsibility for reinventing the Department's Small Business Program. Success or failure is the shared responsibility of all of us.

A handwritten signature in dark ink, appearing to read "E. C. Aldridge, Jr.", with a stylized flourish at the end.

E. C. Aldridge, Jr.

Attachments  
As stated

## DoD Performance Evaluation Metrics

In our efforts to increase the accountability of senior managers for the small business program within the Department, we are proposing new performance evaluation metrics. The new metric is designed to foster continuing Program improvements. There are two steps for determining the performance metric for the DOD, Military department or ODA: a) obtain program element performance rating and b) combine the program element ratings into a single rating.

### Program Element Rating

The following example demonstrates how to calculate the performance level of each program element of the performance evaluation metric system. There are 5 mathematical components used in determining the performance for a program element:

- 1.) **Base Year:** Fiscal Year (FY) 2000 performance
- 2.) **FY Target:** The level of future Program performance desired. Each program goal will be negotiated by OSD SADBUE with the Military departments and ODAs.
- 3.) **Actual Accomplishment:** The actual performance attained by the DoD, Military department or ODA for the FY.
- 4.) **Percent of Increase Achieved:** Obtained using the following equation – ((Actual Accomplishment minus the Base Year accomplishment) divided by (FY Target minus the Base Year Accomplishment)) times 100 percent
- 5.) **Performance Scale:** Equates the Percentage of Increased Achieved to a letter metric.

A = Meets or exceeds statutory goal and is at 90% or higher of the “percentage of increase achieved.”

B = Shows an improved percentage performance of 50% to 89.9% of the “percentage of increase achieved.”

C = Shows an improved percentage performance of 25% to 49.9% of the “percentage of increase achieved.”

D = Shows an improved percentage performance of 24.9% down to a negative 25% of the “percentage of increase achieved.”

F = Shows a negative percentage performance of greater than 25% of the “percentage of increase achieved.”

### Final Departmental, Military or ODA Rating

Each letter grade carries the following numeric value, A = 4, B = 3, C = 2, D = 1, and F = 0. The small business prime and subcontracting program elements both carry a weight factor of nine and the other seven programs elements carry a weight factor of three. The numeric value is then multiplied against the weight factor to develop the overall score. These numeric amounts are then added together and divided by 37 (the aggregate weight factor of the nine Program elements). The division ( $X \div 37$ ) results in a number which is then translated into the “overall score.” An “A” represents a value of 4.00 to 3.75, “A-” = 3.74 to 3.50, B+ = 3.49 - 3.25, B = 3.24 - 2.75, B- = 2.74 - 2.50, C+ = 2.49 - 2.25, C = 2.24 - 1.75, C- = 1.74 - 1.5, D+ = 1.49 - 1.25, D = 1.24 - 0.75, D- = 0.74 - 0.5, and F = 0.49 - 0.0 or less.

The Military departments and Defense agencies can improve their overall score by a half a grade based on the qualitative factors of their small business improvement plan. For example a quantitative overall score of “B+” could be raised to an “A-” based on DoD's judgement that the small business improvement plan and fiscal year performance against it was of outstanding quality. An example of a “significant” qualitative effort would be to increase the number of specific 8(a) contractors by ten percent, that receive contract awards over \$25,000 during the fiscal year as compared to the base year.



# DoD Performance Evaluation System

Fiscal Year (FY) 2002 Through FY 2006

Scorecard Elements	Base Year						Annual Percentage Weight	
	FY00	FY02	FY03	FY04	FY05	FY06	Improvement Factor	
<i>Prime Contracting</i>								
Small Business	21.9%	22.5%	23.0%	23.4%	23.8%	24.1%	2.5	9
HUBZone Small Business	0.37%	2.5%	3.0%	3.1%	3.1%	3.2%	**	3
Small Disadvantaged Bus.	5.7%	5.8%	5.9%	6.1%	6.2%	6.2%	2.5	3
Women-Owned Small Bus.	2.1%	2.4%	2.7%	3.0%	3.4%	3.8%	12.5	3
HBCU/MI *	10.6%	10.8%	11.1%	11.3%	11.4%	11.6%	2.5	3
<i>Subcontracting</i>								
Small Business	39.4%	40.4%	41.2%	42.0%	42.6%	43.2%	2.5	9
HUBZone Small Business	0.3%	2.0%	2.5%	3.0%	3.1%	3.1%	**	1
Small Disadvantaged Bus.	5.4%	5.5%	5.7%	5.8%	5.8%	5.9%	2.5	3
Women-Owned Small Bus.	4.3%	4.7%	5.0%	5.1%	5.2%	5.3%	10.0	3
<b>Total</b>								<b>37</b>

Performance evaluation scale based on performance against the target.

A = Meets or exceeds the statutory goal and is at or above 90 percent of the target performance.

B = is showing an improved percentage performance of 50% to 89.9% of target performance.

C = is showing an improved percentage performance of 25% to 49.9% of target performance.

D = is showing an improvement of 24.9% or less to a decrease of -25%.

F = Represents a negative growth rate of greater than minus 25% of target performance.

A = 4.0, B = 3.0, C = 2.0, D = 1.0 and an F = 0.

\*Base year is fiscal year (FY) 2000 and the multiplier for "small business" and "small disadvantaged business" prime and subcontracting targets is 2.5 percent in FY 02 and then the compounding shifts to  $(2.5 \times 0.85)$  for FY 03 and  $((2.5 \times 0.85) \times 0.85)$  for FY 04, etc. The historically Black colleges and universities (HBCU) and minority institution (MI) prime contracting targets are developed on the same basis as small business, \*\*The historically underutilized business zone (HUBZone) small business targets are based on the statutory goals through FY 03 and then on statutory goal accomplishment (3%) it shifts to  $(2.5 \times 0.85)$  in FY 04 and  $((2.5 \times 0.85) \times 0.85)$  in FY 05, etc. The women-owned small business (WOSB) prime contracting targets are based on a compounding rate of 12.5 percent and the subcontracting targets are based on a compounded rate of 10 percent until the statutory goal of 5 percent is achieved in subcontracting in FY 03 and then the rate shifts to  $(2.5 \times 0.85)$  for year FY 04 and  $((2.5 \times 0.85) \times 0.85)$  for FY 05. \*The HBCU/MI goals and accomplishments are based on their prime contract awards against all institutions of higher education.

# DoD Performance Evaluation System "Example"

Fiscal Year 2001 Target, Example Accomplishment Against FY 2000 Actuals

## Example FY00

Scorecard Elements		Base FY01	FY00	% of %	Metric	Weight	Weighted
<i>Prime Contracting</i>		Year Target	Actual Increase	Rating	Points	Factor	Metric
Small Business	21.5%	22.0%	21.90%	80.0%	B	3.0 x 9	= 27
HUBZone Small Business	0.02%	2.0%	0.30%	14.1%	D	1.0 x 3	= 3
Small Disadvantaged Bus.	6.0%	6.2%	5.70%	-200.0%	F	0.0 x 3	= 0
Women-Owned Small Bus.	1.9%	2.1%	2.10%	84.2%	B	3.0 x 3	= 9
HBCU/MI	8.7%	8.9%	10.6%	873.6%	A	4.0 x 3	= 12
<b><i>Subcontracting</i></b>							
Small Business	41.0%	42.0%	39.40%	-156.1%	F	0.0 x 9	= 0
HUBZone Small Business	0.1%	2.0%	0.30%	10.5%	D	1.0 x 1	= 1
Small Disadvantaged Bus.	5.6%	5.7%	5.40%	-142.9%	F	0.0 x 3	= 0
Women-Owned Small Bus.	3.9%	4.3%	4.30%	102.6%	B *	3.0 x 3	= 9
<b>Total</b>						37	61
							1.65

## Metric Performance Information:

\* Women-Owned Small Business rating is a (B) because the statutory goal of 5% has not been achieved. Qualitative factors can improve the overall score for Military departments and Defense agencies (B+ can be moved to A-).